

## Message Text

UNCLASSIFIED

PAGE 01 BERN 06001 01 OF 02 220927Z

ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /115 W  
-----123642 220939Z /10

R 220801Z DEC 77

FM AMEMBASSY BERN  
TO SECSTATE WASHDC 5465  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 6001

USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS AND FRB

EO 11652: N/A

TAGS: EFIN, SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK DEC 11-17

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL  
SUBSTANTIALLY IN NERVOUS AND HECTIC MARKET. SWISS  
PRESS FOCUSED ON CENTRAL BANKERS' MEETING IN BASEL.  
SWISS SHARE PRICES REGISTERED GAINS. FORM OF POSSIBLE  
NEW INDIRECT TAX MEASURE IS BEING QUESTIONED.  
PRIVATE STUDY OF SWISS ECONOMY CRITICIZED GOVT  
ECONOMIC POLICIES. SWISS BANK CORP PROVIDED LOAN TO  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 06001 01 OF 02 220927Z

HELP BASEL BANK CARRY SUBSTANTIAL LOSSES. END  
SUMMARY.

2. FOREX AND GOLD: DOLLAR RATE AGAINST SF FELL  
ABRUPTLY IN NERVOUS AND HECTIC MARKET WHICH DEALERS  
ATTRIBUTED TO US REFUSAL JOIN OTHER CENTRAL BANKS IN  
COORDINATED MEASURES TO STEM DOLLAR RATE DECLINE.

SNB REPORTEDLY BOUGHT \$700 MILLION DURING FIRST HALF DEC TO HELP SUPPORT DOLLAR EXCHANGE RATE. DEALERS SAID DIFFERENCES BETWEEN BUYING AND SELLING DOLLAR RATES, OFTEN FROM 50 TO 100 POINTS, REFLECTED MARKET THINNESS. DOLLAR RATE FLUCTUATED GREATLY FROM OPENING SF 2.13 MONDAY TO LOW OS SF 2.0550 THURS. DOLLAR ROSE BRIEFLY TO CLOSE AT SF 2.08 THURS AFTER REPORT JAPAN WOULD AGREE TO REDUCE ITS TRADE SURPLUS. SF APPRECIATED AGAINST MOST CURRENCIES WITH REPORT OF RECORD NOV SWISS EXPORTS OF NEAJGLY SF 4 BILLION. DEALERS EXPECT WEST GERMAN MEASURES TO STEM CAPITAL INFLOWS TO RESULT IN ADDITIONAL UPWARD PRESSURE ON SF EXCHANGE RATE. DOLLAR WEAKNESS PROVIDED LITTLE SUPPORT FOR GOLD PRICE WHICH STABILIZED AT 159 AFTER ABRUPT DECLINE TO 157 TUES. DEALERS ATTRIBUTED BRIEF GOLD PRICE SLIPPAGE TO LIQUIDATION SIZABLE LONG POSITIONS AND BUILD UP OF SHORT POSITIONS IN US. RATES FOLLOW:

(FOLLOWING IN THREE COLUMNS)

ITEM - 12/12 (OPEN) - 12/16 (CLOSE)

SPOT DOLLAR - 2.1370 - 2.0630

FORWARD DISCOUNTS

(PERCENT PER ANNUM)

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 06001 01 OF 02 220927Z

ONE MONTH - 4.99 - 5.06

TWO MONTHS - 4.76 - 5.00

THREE MONTHS - 4.76 - 4.83

SIX MONTHS - 5.01 - 5.02

TWLEVE MONTHS - 4.68 - 4.75

SF/DM - 97.62 - 96.28

GOLD - 158.25 - 159.75

3. PRESS COMMENT: MOST PAPERS FOCUSED ON DEC 12 CENTRAL BANKERS MEETING IN BASEL (BERN 5903). JOURNAL DE GENEVA DEC 15 EDITORIAL STATED SNB IS APPARENTLY NOT OVERLY ALARMED ABOUT DOLLAR RATE DECLINE AGSINST SF, DESPITE PUBLIC STATEMENTS TO CONTRARY. OVER PAST THREE YEARS SF HAS APPRECIATED NOMINALLY AVERAGE 10 PERCENT EACH YEAR, OF WHICH 5 PERCENT ACCOUNTED FOR BY FOREIGN AND SWISS INFLATION RATE DIFFERENTIAL. SNB'S PRIMARY POLICY OBJECTIVE OF HOLDING DOWN INFLATION BENEFITS SWISS INDUSTRY. THEREFORE, BOTH US AND SWISS POLICIES SHOULD CAUSE SF CONTINUE TO APPRECIATE AGAINST DOLLAR. EDITORIAL STRESSED US VIEW THAT DOLLAR EXCHANGE RATE IS PHONEY ISSUE BECAUSE DOLLAR HAS APPRECIATED ON TRADE-

WEIGHTED BASIS, PRIMARILY AGAINST CANADIAN DOLLAR.  
DOLLAR HAS DEPRECIATED ONLY AGAINST YEN, DM, SF  
AND FLORIN. THOSE COUNTRIES' CONSERVATIVE DOMESTIC  
POLICIES TO HOLD DOWN INFLATION HAVE ALSO DAMPENED  
ECONOMIC GROWTH. US EFFORTS TO STIMULATE HAVE BOOSTED  
IMPORTS AND INCREASED US TRADE DEFICIT. JAPAN AND  
WEST GERMANY NEED ONLY FOLLOW US ADVICE, I.E., STIMU-  
LATE, WHICH WOULD INCREASE IMPORTS FROM US,  
DECREASE UNEMPLOYMENT AND STOP DOLLAR RATE DECLINE.

4. CAPITAL AND MONEY MARKETS: STOCK PRICES ROSE IN  
LIGHT TURNOVER. SKA SHARE INDEX HIT NEW 1977 HIGH OF  
249. SWISS INVESTORS HAVE TURNED INCREASINGLY TO  
SWISS SHARES IN VIEW OF DECLINING PRICES ON FOREIGN  
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 BERN 06001 01 OF 02 220927Z

MARKETS, PARTICULARLY IN US, THOUGH EXCHANGE RATE  
DEVELOPMENTS HAVE DECREASED EXPORT EARNING POTENTIALS  
FOR SWISS INDUSTRIES. OBSERVERS ARE OPTIMISTIC FOR  
CONMTINUED RISE IN SHARE PRICES THROUGH JAN 1978.  
AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO 3.82.  
MARKET IS HIGHLY LIQUID, PARTLY DUE TO SNB DOLLAR  
PURCHASES. SNB IS EXPECTED TO PROVIDE BANKS CONSIDERABLE  
YEAR-END LIQUIDITY. GIRO ACCTS ARE EXPTECTED TO RISE  
SF 4 BILLION TO SF 12.5 BILLION. ADDITIONAL SF 1  
BILLION SWAPS WITH BANKS ARE EXPECTED BEFORE CHIRSTMAS,  
AND BANKS ARE EXPECTED TO REDEEM SNB STERILIZATION  
ORDERS. NOTES IN CIRCULATION MAY DECLINE SF 800

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BERN 06001 02 OF 02 220909Z  
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /115 W  
-----123538 220940Z /10

R 220801Z DEC 77

FM AMEMBASSY BERN  
TO SECSTATE WASHDC 5466

INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL ZURICH POUCH

UNCLAS SECTION 2 OF 2 BERN 6001

MILLION IN LAST WEEK DEC.

5. PUBLIC FINANCES: PARLIAMENT PASSED 1978  
FEDERAL BUDGET WITH SF 16.2 BILLION IN EXPENDITURES  
AGAINST SF 15 BILLION IN RECEIPTS FOR DEFICIT SF 1.2  
BILLION. CANTONS ARE EXPECTED HAVE COMBINED 1978  
DEFICIT OF SF 1.4 BILLION. IN VIEW OF VOTER REJECTION  
OF WEALTH TAX INITIATIVE IN DEC 4 NATIONAL REFERENDUM,  
FEDERAL COUNCIL FAVORS INTRODUCTION VALUE ADDED TAX  
OF 8 PERCENT TO INCREASE REVENUES. HOWEVER, INTERIM  
STEP OF INCREASING RATE OF PRESENT TURNOVER TAX IS  
BEING CONSIDERED BECAUSE OF TIME REQUIRED TO PRESENT  
REFERENDUM ON VAT TO SWISS VOTERS. POLITICAL PARTIES,  
ECONOMIC AND PROFESSIONAL INTEREST GROUPS ARE REPORTEDLY  
DIVIDED ON FORM OF NEW INDIRECT TAX MEASURE SHOULD TAKE  
WITH OPPOSITION TO VAT GROWING.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 06001 02 OF 02 220909Z

6. GOVT POLICIES: STUDY OF SWISS ECONOMY CONDUCTED  
FOR SNB AND FEDERAL ECONOMIC DEPTY BY THREE UNIVERSITY  
PROFESSORS WAS CRITICAL OF GOVT POLICIES WHICH MAY  
HAVE EXACERBERATED RECESSION AND HINDERED RECOVERY.  
ADOPTION OF POLICY TO REDUCE FOREIGN POPULATION PROBABLY  
DEEPENED RECESSION, PARTICULARLY FOR BUILDING INDUSTRY.  
GOVT'S ECONOMIC POLICIES HAVE BEEN BADLY TIMED.  
FEDERAL BUDGET DEFICITS ROSE DURING ECONOMIC EXPANSION.  
RECESSION REDUCED REVENUE MORE THAN GOVT EFFORTS TO  
DECREASE EXPENDITURES. DEFICIT HELPED STABILIZE ECONOMY.  
BUT, GOVT THEN SOUGHT TO INCREASE REVENUES WHILE ALSO  
ATTEMPTING TO STIMULATE ECONOMY. STUDY URGED GOVT  
NOT REDUCE FEDERAL BUDGET DEFICIT DIRECTLY RELATED  
TO RECESSION. RESTRICTIVE SNB MONETARY POLICY TO  
HOLD DOWN INFLATION CONTRIBUTED TO SF APPRECIATION.  
THOUGH SWISS INDUSTRIES ARE ADJUSTING TO STRONGER  
FRANC AND PROFITS HAVE IMPROVED, IT IS TOO EARLY TO  
SAY WHETHER EXPORT RECOVERY WILL REMAIN STRONG.  
SUBSTANTIAL GNP INCREASE IS UNLIKELY WITH LOW  
INFLATION RATE IN VIEW STRUCTURAL BOTTLENECKS SUCH AS  
LOW LABOR MOBILITY. REPORT STATED FINANCIAL SECTOR

COULD MAKE GREATER EFFORT TO HELP RECOVERY; PERHAPS  
BY FURTHER REDUCING INTEREST RATES.

7. BANKING: SWISS BANK CORP LOANED SF 15 MILLION  
TO HANDERWERKERBANK, BASEL, TO ENABLE THAT BANK  
CONTINUE OPERATING AFTER ITS ZURICH SUBSIDIARY,  
LEAVAG LEASING AND SALES AG, REPORTED LOSSES OF  
SF 6 MILLION. LOSSES REPORTEDLY EXCEED RESERVES OF  
HANDERWERKERBANK WHICH HAD BALANCE SHEET TOTAL SF  
847.3 MILLION AND NET PROFIT SF 4 MILLION AT END  
1976.

WARNER  
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 06001 02 OF 02 220909Z

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 22-Dec-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977BERN06001  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770477-0626  
**Format:** TEL  
**From:** BERN USMTN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19771228/aaaaaxcg.tel  
**Line Count:** 242  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** c41e49fe-c188-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 24-Mar-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 149781  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SWISS FINANCIAL REVIEW: WEEK DEC 11-17  
**TAGS:** EFIN, SZ  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/c41e49fe-c188-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009